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First National City Bank Monthly Letter

Business and Economic Conditions

New York, September 1959

General Business Conditions

THE steel strike is nearing the end of its seventh week and as yet no break is visible. The remarkable ability of the economy to withstand the crippling of one of its key industries has been highlighted by the record or near-record levels of employment, income, and retail sales. Production in most lines, except those directly involved, is still at high levels. From now on, however, as long as the strike continues and as more and more firms exhaust their stockpiles, layoffs and shutdowns will tend to spread.

Business confidence is strong despite labor troubles. The feeling is general that once a settlement is reached the economy will surge to new heights. With booming sales and spending power, renewed upward pressures on prices assert themselves. A minor, but perhaps symbolic, advance of 1 per cent in the consumer price index has occurred this summer. The pattern set by the steel contract can, of course, have a critical effect on commodity price movements in the months ahead. As steel stocks dwindle and pressure for a settlement mounts, it is earnestly hoped that all parties involved recall their often-expressed desire for a noninflationary settlement. In copper, which is strikebound, as in aluminum and other industries where negotiations are in progress, managements generally are following the strong anti-inflationary stand taken by steel officials and are seeking changes in union working rules to improve productivity as a consideration for increases in wages or other benefits.

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Coasting Along

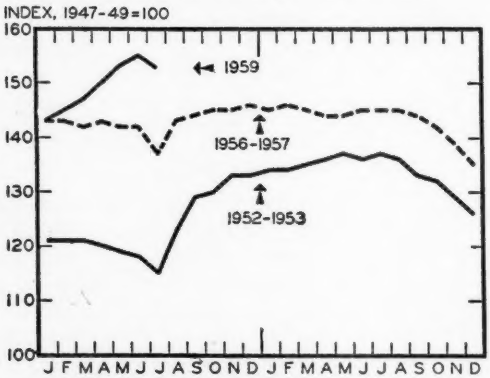
The first month or so of the steel strike caused little more than a ripple in the economy outside steel-producing centers. During July nonfarm employment, personal income, and retail sales held up better than usual and, on a seasonally adjusted basis, reached peaks beyond any previous experience. Preliminary reports for August show the economy coasting along through the summer slack period at relatively high levels. Consumer buying, as reflected in sales by department stores and new car dealers, has been generally well maintained in August. Even in some steel-making centers, sales are up from last year.

Over-all industrial activity in July was only slightly below the June record. The Federal Reserve index of industrial production (seasonally adjusted, 1947-49 = 100) dipped to 153 from 155 in June, but was still well above any previous July. Between June and July, steel production was cut by more than half, but the index of metal fabricating activity rose 2 per cent and other major durable goods lines also advanced. Production of textiles, apparel, and other nondurable goods continued to boom.

These high rates of output reflect sustained consumer demand and business confidence. Among steel-consuming industries they also reveal what a vast accumulation of steel of all varieties took place before the strike. Even after

six weeks' shutdown of the mills, steel warehouses did not report general shortages of any types. Major durable goods producers continue to express confidence that their supplies will last well into September, and many hope, through exchanges or special purchases, to stretch stocks into October. Here and there, however, complaints of steel shortage are being heard.

Naturally, the impact of the strike will be felt more broadly the longer it lasts. August business reports are unlikely to be as good as July's were and September may be off further if settlement is not achieved early in the month. Yet, as the chart shows, the impact of previous steel strikes on industrial production has been neither deep nor lasting. The current strike, however, has already exceeded in length the 1956, 1949, and 1946 steel walkouts, and, on August 31, was within a week of matching the 55-day strike in 1952.



Industrial Production During and After Major Steel Strikes

Strikes are an expression of the rights of workers to bargain collectively and to cease and desist from daily labor. On the employer's part, decision to accept a strike is an expression of rights to resist workers' demands. Strikes involve great costs and that is why they finally come to an end. The steel strikers have already suffered wage losses which may take years to recover even if they win some extra cents an hour. At the latest count, over 125,000 workers in allied lines — innocent bystanders in the strike — had been laid off. The continuing overhead and damage to steel-making facilities are eating away at profits the industry made during the first half. Markets — and jobs — lost to foreign producers or substitute materials may never be fully recovered. Steel users, even if they avoid shutdowns, must bear the cost of carrying heavy inventories or of scrambling for steel at any price. Government shares all these costs through reduced tax revenues.

Focus on Employment Costs

While everyone recognizes the economic waste involved in a strike of this magnitude, its persistence underlines the fundamental nature of the dispute between management and labor. The steel industry, concerned to avoid price inflation and sustain its foreign markets, keenly feels the need to resist further increases in employment costs and achieve operating economies wherever possible. The union, to use Samuel Gompers' classic phrase, wants "More."

While other differences still need to be worked out, the focal point of the dispute is to be found in the issue of working rules in existing plants. Management has increasingly found its authority to make changes undermined by inflexible working rules and union insistence on adherence to past practices. Indeed, there is some question as to just what prerogatives management does retain these days. David McDonald, president of the United Steel Workers, stated flatly in a television broadcast on August 9: "We refuse to let our workers be hired, fired, and paid at the whims of management." Both Mr. McDonald and Walter Reuther of the United Automobile Workers have been free with advice on how management should price products and dispose of profits.

Steel industry leaders are determined to halt or reverse this trend toward greater union intervention in management functions. Yet this part of the contract may be the most difficult to write, because of the local and specific nature of most of these problems. In whipping up rank-and-file opposition to any changes in the working rules, Mr. McDonald charged that industry officials ". . . want more sweat from the workers and a greater speedup of work to pile up greater profits." Management, looking at the rise in employment costs per ton during the life of the previous steel contract, despite heavy capital outlays to save labor, knows that this trend must be resisted if the line is to be held on steel prices. Intelligent workers, too, know that less featherbedding and inefficiency mean more money available toward wages and incentive payments for those who do a good job.

Setting for a Boom

Once the steel strike is settled, the prevailing opinion is that business can and will expand to new heights. The "Glamorous Decade" of the sixties can show if it is up to advance billings. A resurgence to new peaks of activity will be natural as steel mills resume operations and their customers scramble to rebuild inventories. Full recovery in steel operations may be impeded during the winter, however, should the strike

deny time to bring sufficient ore down the Great Lakes before the winter freeze.

If steel is available, automobile manufacturers plan to assemble over 1.9 million cars in the closing quarter of 1959, up 41 per cent from last year and the largest final quarter since 1955. Nearly 350,000 of these are expected to be "compact" cars. The schedules would boost domestic output for 1959 as a whole to 6.3 million cars, a total surpassed only in 1950 and 1955.

A strong push is also anticipated from business expenditures on new capital equipment. Orders for most types of heavy machinery and equipment have been at an advanced level in recent months, and by the fourth quarter these orders should be reflected in actual production and sales. Rising capital investment is expected to persist into 1960. Business is also expected to spend heavily rebuilding inventories, although perhaps not to the extent of the $10.4 billion a year rate reached in the second quarter of this year. In manufacturing, wholesaling, and retail trade alike, the ratios of stocks to sales are unusually low, and considerable further accumulation is indicated.

The increased outlays for consumer durables and business investment will tend to replace the stimulus exerted during the recovery by government outlays and home building, which now are flattening out at high levels. All of these rosy expectations are based on the assumption that in the fourth quarter steel will once more be readily available. Without this essential item, renewed expansion will have to wait.

The Controversy Over Interest Rates

Through the sultry summer, debate continued over the President's urgent request, made June 8, for removal of old statutory limits on interest rates payable on U.S. Treasury bonds. The President wanted to raise the rate payable on Savings bonds (now limited to 3.26 per cent) to 3¾ per cent and to pay more than 4¼ per cent if necessary to sell marketable Treasury bonds. The Treasury is blocked off from placing bonds due after five years because they could not be sold in today's market within the 4¼ per cent legal limit, which was set back in 1918. Meanwhile, savers' dissatisfaction with the current 3¼ per cent rate on Savings bonds is reflected in the growing excess of redemptions over new sales, involving a steady drain on Treasury cash.

The President's proposal encountered bitter resistance from "liberals" who pressed for an amendment stating it to be the "sense of Congress" that the Federal Reserve should buy more U.S. securities, of varying maturities, to "assist in the economical and efficient management of the public debt." The House Ways and Means Committee, which had the responsibility of clearing a bill, worked patiently to amend the proposed "sense of Congress" amendment into a reasoned statement of economic and debt management policies that could satisfy everyone.

The Committee August 12 tentatively approved a bill which suspended rate limits on Treasury bonds for a three-year period and which rewrote the "sense of Congress" amendment in language acceptable to Secretary of the Treasury Robert B. Anderson and Federal Reserve Board Chairman William McC. Martin. But opposition in other quarters led the Committee to shelve the measure for the present session of Congress. As a result of this stalemate, the Treasury will have to concentrate its borrowings within a five-year maturity limit, paying whatever rates may be required. In this area no rate limits apply.

Selling only obligations due within five years — as the Treasury perforce must do — gives an extra upward impulse to shorter-term rates and moreover builds the volume of near-term Treasury obligations. As the situation stands at the beginning of September, no less than 73 per cent of the marketable public debt is due within five years. This means that the Treasury, to meet maturities, must be constantly coming to the market to refinance itself, interfering with the freedom and flexibility of Federal Reserve credit policy, and involving problems of digestion of successive new offerings. It would be better for everyone concerned if more of the debt were in the hands of long-term investors, put away in the box for years.

The book, of course, is not closed on the rate problem. Sooner or later the Treasury must have authority to manage the debt in an orderly way.

Meanwhile, it could turn out that the "liberals" are being penny wise and pound foolish. If the effect is to give fresh impulse to inflationary psychology, savers and investors may demand higher rates. Every irresponsible fiscal action has a cost in interest charges.

Why Higher Rates

The upward push in interest rates over the past year has been a result of increased borrowing demands from all sides: from the Federal Government financing a peacetime record deficit; from state and local governments raising money for roads, schools, and other local improvements; from home builders putting up new houses; from individuals buying new cars; from industry financing record-high production and payrolls. The interest rate rise that began in

June 1958 was unexpectedly rapid — though so also was the return of booming business conditions and inflationary psychology.

It is a pity in retrospect that the Congress did not act promptly upon the President's recommendation inasmuch as market conditions favorable to bond offerings developed during the summer. In part this reflected the reassurance investors felt in the President's masterful statement of debt management fundamentals and veto of another big housing bill, as well as feelings that stocks were high and bonds relatively cheap. The supply of new corporate and municipal issues temporarily declined, and an opening was created for bond financing. The Treasury must have discretionary authority to take advantage of such situations in a timely way.

The President's proposal, documented by the Treasury Department, spelled out what seemed quite obvious: something had to be done to stem the rising tide of Savings bond redemptions and permit the Federal Government to continue flotations from time to time of bonds in the long-term investment market.

Stalwart opposition, however, was voiced in speeches on the floors of Congress and in hearings conducted by the Congressional Joint Economic Committee on the subject of Employment, Growth, and Price Levels. Trenchant in their criticisms were three members of the committee, Senator Paul Douglas of Illinois, chairman, Congressman Wright Patman of Texas and Congressman Henry Reuss of Wisconsin.

Their proposals for Federal Reserve support of the government bond market were vigorously opposed by Treasury Secretary Anderson and Chairman Martin. Mr. Martin stated that:

> . . . under present conditions, I am convinced that this amendment, when stripped of all technicalities, and regardless of whether the language is permissive or mandatory, will cause many thoughtful people both at home and abroad to question the will of our Government to manage its financial affairs without recourse to the printing press. To me this is a grave matter.
>
> We are here dealing with trust and confidence which is the keystone of sound currency. Therefore, I must oppose this proposal as vigorously as possible. . .

Trick Solutions

"Liberal" opinion is reopening the Pandora's box of tricks studied and rejected before the bond market was unpegged in 1951.

As early as June 4 Congressman Reuss proposed a resolution citing the rise in interest costs on the national debt, urging greater reliance on purchase or retention of government obligations by the Federal Reserve Banks, and also asking the Federal Reserve System to explore methods of raising bank reserve requirements as an anti-inflationary tool.

The use of the Federal Reserve to create cheap money while placing special restraints on private lenders and borrowers apparently has a considerable following in neo-liberal circles. It is part of the prescription for progress advocated in a new pamphlet put out by the Conference on Economic Progress (CEP), an organization led by Leon H. Keyserling and supported by a number of trade union leaders. In a speech on July 16, Congressman Patman called the attention of the House to the following passage in the CEP pamphlet which bears the title, "Inflation — Cause and Cure."

> The so-called tight-money policy is both repressive and inflationary. The Federal Reserve System should resume sufficient support of the Government bond market to stabilize interest rates at lower levels, and to facilitate the management of the national debt.
>
> The inflation attributed to such policies during wartime was due to other causes. If necessary, the Federal Reserve System can counteract any inflationary effect of bond support by lifting bank reserve requirements.
>
> A more selective system of credit controls should be instituted. The overall tight credit approach restrains those activities which are in need of expansion, long before it touches those which need restraint. It is also hurtful to economic growth.

Congressman Patman commended the CEP study which he said "cuts through all the mystical fog and gobbledygook which have been built up around the tight-money and high-interest policies." The "fog and gobbledygook" in the CEP pamphlet translates into an effort to deal with inflation by insuring an unlimited supply of cheap money for government to spend while empowering government to dictate to the people how much or little they may be permitted to borrow and spend.

Of critical importance in the unpegging of the U.S. bond market in March 1951 was a special study undertaken by a Subcommittee of the Joint Economic Committee in the winter of 1949-50. This Subcommittee, presided over by Senator Douglas, stated that: "As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment." But, Senator Douglas' report went on to say:

> . . . we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.

Senator Douglas' View

In the recent controversy Senator Douglas has not repudiated these findings, nor has he specifically endorsed the Patman-Keyserling idea of raising cash reserve requirements of the commercial banks to offset the inflationary influence of Federal Reserve bond purchases. Senator Douglas supported legislation enacted in July to make the existing system of member bank reserve requirements more logical and equitable.

The passage of this legislation by heavy majorities in both houses of Congress, following careful study by their Banking and Currency Committees, indicated how little following there is for proposals to tie commercial banking lending power up in knots to cheapen credit supply for government.

Senator Douglas, however, joined in opposing removal of the bond rate limit, in pressing for a larger money supply, in urging Federal Reserve bond purchases, and in proposing that the Federal Reserve Board in the future should provide increased credit for a growing economy by Federal Reserve purchases of government securities rather than by easements of cash reserve requirements applicable to the 6,279 member banks of the Federal Reserve System.

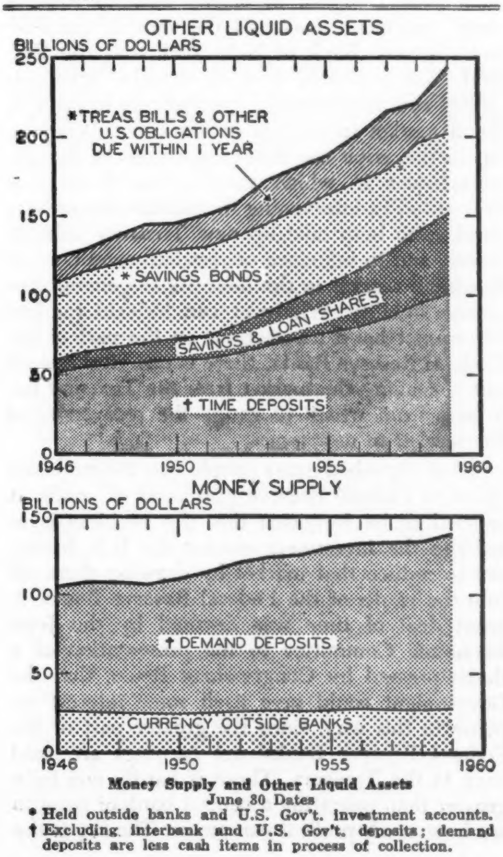
Senator Douglas' view on the bond rate limit, as expressed in a major Senate speech on June 8, was that the pressure on money rates was temporary and that the Treasury should finance itself with obligations due within five years where no rate limits are applicable. The trouble with simply suspending bond offerings is that passage of time is constantly shortening public debt maturities. Too little of the debt is funded at long-term. The Treasury needs to keep in contact with the long-term investment market by periodic new issues.

Congressmen, including Mr. Reuss, had been critical of the Treasury for not having put more of the debt into long-term form. The trouble is that there always have been reasons to be mustered why long-term offerings should not be made. In times of boom it is held to be too expensive. In times of business recession the fear is that federal bond offerings will cut into the supply of funds for stimulation of home building. The incredible result is that, over thirteen years, the U.S. Treasury has put out only five issues of bonds due after twenty years. Even though the Federal Government has the largest debt, and the largest needs for funding debt, other borrowers have been allowed something like a monopoly claim on long-term investment funds. In 1953 the Treasury was scolded for paying 3¼ per cent on 30-year bonds; the Treasury would be saving money today if more had been sold.

Quantity of Money

In commending a larger money supply, Senator Douglas took the point of view that inflationary hazards are being exaggerated. It is difficult to say exactly how much money is just right since – as Senator Douglas recognizes – the rate of turnover changes. But it is broadly true that whenever business is booming, and people generally are anxious to borrow and spend more, there are risks of inflation as well as complaints of money scarcity. There is a speed-up in the rate of turnover, or velocity, which permits an unchanged money supply to handle increased expenditures. The general approach followed at the Federal Reserve has been to feed the money supply in periods of business recession and to hold back in periods of boom.

The last week of May the Joint Economic Committee under Senator Douglas' chairmanship held hearings with a group of economists to explore "the influence on prices of changes in the effective supply of money."



Money Supply and Other Liquid Assets
June 30 Dates
* Held outside banks and U.S. Gov't. investment accounts.
† Excluding interbank and U.S. Gov't. deposits; demand deposits are less cash items in process of collection.

There was no general agreement on the proper rate of increase in the money supply or, for that matter, as to what money is and what should be included in measuring the money supply. Dr. John G. Gurley of the Brookings Institution pointed out that interest-bearing liquid assets, analogous to money, have been rising more rapidly than money supply, measured in the conventional way as paper currency, coin, and checking account deposits owned by the "public."

The previous chart illustrates the faster growth of interest-bearing liquid assets which holders may consider as "money in the bank" or the equivalent thereof.

As pointed out by Secretary Anderson and Chairman Martin, the build-up to new peaks in the outstanding volume of Treasury bills and other short-dated obligations represents an enlargement of the inflationary potential. Hence the importance not only of rebalancing the federal budget but also of putting out long-dated bonds at every reasonable opportunity.

Federal Reserve Bond Purchases

Senator Douglas, in urging Federal Reserve bond purchases, endorsed the view of the Federal Reserve Bank of New York that the Federal Reserve should drop its so-called bills only policy and intervene less infrequently in the U.S. bond market in periods of weakness. Wrapped up in this issue are thorny questions of the circumstances in which the Federal Reserve is warranted in intervening to maintain an orderly market, to help take up new Treasury security issues, and to influence or regulate conditions in the bond market in the interests of general economic stability. Whatever can be said for less infrequent bond transactions on the part of the Federal Reserve Banks, there is one vital benefit out of leaving the market free: the Treasury has a base from which to gauge the receptivity of the market to new issues.

What disturbed many people was the emphasis given to Federal Reserve purchases of bonds. It seemed to be forgotten that the problem is to enlarge the investment market for U.S. bonds, not to reduce that market by drawing them off into the vaults of the Federal Reserve Banks. A great deal of time was devoted by the Joint Economic Committee to the presentation of a thesis pressed by Congressman Reuss, that the Government could save itself some interest expense in this way, since the greater part of the Federal Reserve Banks' net earnings are paid back to the Treasury. There is hardly any folly greater than operating a central bank of issue to see how much profit it can amass. The sky is the limit as long as people are amenable to depreciation in the value of their currency.

Reserve Requirements Again

In hearings of the Joint Economic Committee July 27, Senator Douglas pressed Chairman Martin to agree that Federal Reserve purchases of government securities are no more inflationary than equivalent reductions in cash reserve requirements of member banks. Actually, the Federal Reserve has used both methods to allow greater liberality in extension of credit during periods of business recession. Federal Reserve holdings of U.S. Government securities right now are at a record peak. Bank reserve requirements, while eased in 1953-54 and 1958, remain considerably above the standard levels stated in the Federal Reserve Act.

The Federal Reserve Board has not raised cash reserve requirements since the bond market was unpegged in 1951. It is safe to increase the requirements only when, as during the gold inflow of 1934-41, there is an uncontrollable excess of idle funds in the market. When, as now, the banks are under strain, a demand that they raise more cash to hold idle would quite simply panic the bond market. The problems the Treasury already has in financing itself would be compounded by forced bank selling on a falling market. These would hardly seem to be legitimate objectives for public policy.

Looking to the future, Congressman Reuss argued that the Federal Reserve, if not actually raising reserve requirements, should refrain from reductions. Thus, he would supply all additional needs for credit over the years through the purchases of government securities by the Federal Reserve Banks, helping the Federal Treasury through its share in Federal Reserve Bank profits.

Congressman Thomas B. Curtis of Missouri, in an exchange with Congressman Reuss on the House floor, offered a "better way to try to keep interest rates down." Pointing out that "really what has driven interest rates up and has created this situation of debt management is the great size of the federal debt and the budget deficits," Mr. Curtis went to the heart of the matter:

> You can help by keeping these appropriation bills down. They are getting larger all the time. That is what you can do if you are really interested in keeping interest rates down. Otherwise, I can tell you, you are just talking a lot of nonsense and about a lot of useless monetary shifting, because it is the size of the Federal debt that has caused the trouble in managing it. This causes high interest rates. This creates the pressures that result in inflation.

Bank Profits and Interest Rates

There is a common misconception, as noted by Treasury Secretary Anderson in an interview with *U.S. News & World Report,* that banks gain a great deal from rising interest rates. For one thing, banking is a highly competitive business, with competition not only among the thousands of banks subject to federal law but also thousands of other financial institutions of diverse sorts, foreign as well as domestic.

Like other people, bankers have had increased expenses to face, more offices to open, and rapid growth in items handled. Increased interest rates themselves are not an unmixed blessing. When interest rates rise it is because banks are short of money to lend, because deposits are harder to get and hold, because higher rates must be paid on interest-bearing deposits, and because losses must be incurred when investments are sold to make room for more loans.

"Easy-money" advocates, looking back to 1947 when 91-day Treasury bills were pegged at ⅜ per cent, can speak of bill yields (recently 3 to 3¾ per cent) as having risen ten times. But dividends on bank stocks have shown no such rise. As a matter of fact the dividend return on bank capital funds has been among the most sluggish "interest rates" of all, moving up only from 3.3 per cent in 1947 to 4.1 per cent in 1958.

Bank profits, measured as a return on capital funds, have quite consistently hung around 8 or 8½ per cent ever since 1947. The average for the past ten years, 1949-58, has been 8.3 per cent, on the low side as business enterprise goes. For example, the average for manufacturing corporations over this period was 13.4 per cent.

It is interesting to note that the peak profit rate for banks in modern history, nearly 11 per cent, was attained in 1945 when profits on security transactions were virtually guaranteed by the pegging practice Congressman Patman wants to put back in force. His scheme to have the Federal Reserve purchase 2½ per cent Treasuries to drive them back to par would give capital recoveries or gains to banks, though the biggest profits no doubt would accrue to speculators.

Bank profits in the aggregate, and also bank capital accounts, have risen since the war parallel with the rise in gross national product. Bank supervisory authorities keep urging banks to build capital funds faster. It takes more profits to support more capital funds.

Meanwhile, in terms of total assets, the commercial banks have lost ground relative to other classes of financial institutions. Dr. Gurley, in his testimony before the Joint Economic Committee, referred to this as a result of "controls" — something the "liberals" would increase. Banks need to share in economic growth, build profits and capital funds, if they are to strengthen their ability to serve the people. It is impossible to conceive of a vigorous free enterprise system where banks have their lending power sterilized to support cheap government borrowing.

President's Plea

President Eisenhower, in a strongly worded message August 25, expressed "grave disappointment" at the failure of Congress to remove "artificial limitations" on interest rates. He urged reconsideration, stressing that "no issue of greater importance has come before this session of Congress":

> We have worked tirelessly for a balanced budget. We need this balance so that we can avoid the deficits that lead to higher prices, to a rising cost of living and to an eating away of the value of the billions of dollars that thrifty and far-sighted Americans have saved. But Congressional inaction on our debt management proposal could do much to offset the progress we have made toward fiscal responsibility.
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> The vital interest of all Americans is at stake because excessive reliance on short-term financing can have grave consequences for the purchasing power of the dollar. The issuance of a large amount of short-term Treasury debt would have an effect not greatly different from the issuance of new money. Because these securities are soon to be paid off, their holders can treat them much like ready cash.

The President went on to emphasize that the Treasury must have the capacity to finance the Government's requirements in free credit markets without artificial restrictions:

> Let me state plainly as I can that this is not legislation to increase interest rates. This Administration is not in favor of high interest rates. We always seek to borrow as cheaply as we can without resorting to unsound practices. . . .
>
> . . . To prohibit the Treasury from paying the market price for long-term money is just as impracticable as telling the Defense Department that it cannot pay the fair market price of equipment. The result would be the same in either case; the Government could not get what it needs.
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> • • •
>
> The issue . . . is whether we are going to demonstrate responsibility in the management of our Federal debt. Ours is the richest economy in the world. We have a large public debt, but we can certainly handle it soundly and efficiently if we remove the artificial obstacles to borrowing competitively in the free market.
>
> By adopting the Administration's proposals the Congress would be demonstrating to people at home and abroad that we have the determination to preserve our financial integrity and to protect our currency.

The Hundred Largest "Salesmen"

America's economic achievement rests on the initiative of entrepreneurs working under free institutions and seeking to discover and satisfy human wants. Our method of progress has been to realize efficiencies of large-scale production and distribution. Ironically, the companies that succeed best and grow from small beginnings to great size frequently come under political attack. Yet it is the choice of the consumer that makes a company big and it is the ballot box in the market place that decides which firm is entitled to grow on the merits of its products.

Competition for the consumer's dollar covers the entire range of goods and services, and the American consumer has close to a billion dollars a day to spend. Market potentials become quite fabulous for well-designed new products, effectively promoted to attract the consumer's favor.

There are, on the basis of figures for 1958, 45 corporations with sales levels beyond the billion dollar mark. The 100 largest nonfinancial corporations, as shown in the accompanying list, had sales or revenues of $142 billion.

Manufacturing companies make up 74 of the 100 largest and had combined sales of $107 billion. Among the 74 manufacturers are 14 petroleum producing and refining companies with sales of $27 billion and three automobile manufacturers with $16 billion.

Completing the group are 17 retail and wholesale trade companies with sales or revenues of $23 billion, five railroad systems with $4 billion, and four public utilities with $9 billion.

There are no "life memberships" in the "100 Largest Club." The members face the constant threat of being displaced by other organizations which are more aggressive or whose industries are growing faster. In a growing economy a company must go ahead to hold its place.

Numerous changes in the list over the years illustrate the dynamic character of American business. For example, even during the short space of three years since the previous similar tabulation in this *Letter* (September 1956: "Where The Money Goes") there have been eight changes. Displaced from the list were producers of steel, glass, two aircraft, and four nonferrous metals. Their places were taken by producers of chemicals, soap, and petroleum, three food chains, and two public utilities.

Total Sales or Revenues, 100 Largest U.S. Nonfinancial Corporations as Reported for Year 1958 (In Millions)

Manufacturing	
Allied Chemical Corp.	$639
Allis-Chalmers Mfg. Co.	535
Aluminum Co. of Amer.	758
American Can Co.	1,038
American Cyanamid Co.	539
American Metal Climax	542
American Tobacco Co.	1,104
Armco Steel Corp.	884
Armour & Co.	1,853
Atlantic Refining Co.	552
Bendix Aviation Corp.	625
Bethlehem Steel Corp.	2,024
Boeing Airplane Co.	1,712
Borden Company	919
Borg-Warner Corp.	535
Burlington Industries	658
Caterpillar Tractor Co.	586
Chrysler Corp.	2,175
Cities Service Co.	1,080
Colgate-Palmolive Co.	584
Continental Can Co.	1,085
Continental Oil Co.	602
Distillers Cp.—Seagrams	706
Douglas Aircraft Co.	1,210
Dow Chemical Co.	714
E. I. du Pont de N. & Co.	2,003
Eastman Kodak Co.	846
Firestone Tire & Rub. Co.	1,065
Ford Motor Co.	4,174
General Dynamics Corp.	1,513
General Electric Co.	4,156
General Foods Corp.	1,056
General Mills	546
General Motors Corp.	9,614
B. F. Goodrich Co.	702
Goodyear Tire & Rub. Co.	1,372
Gulf Oil Corp.	2,793
Inland Steel Co.	661
Inter. Bus. Mach. Corp.	1,187
Inter. Harvester Co.	1,117
Inter. Paper Co.	920
Inter. Tel. & Tel. Corp.	703
Jones & Laughlin Stl. Cp.	657
Liggett & Myers Tob. Co.	556
Lockheed Aircraft Corp.	966
Monsanto Chemical Co.	556
Natl. Dairy Prod. Corp.	1,457
Natl. Dist. & Chem. Cp.	526
National Steel Corp.	545
No. American Aviation	909
Olin Mathieson Chem. Cp.	610
Phillips Petroleum Co.	1,073
Manufacturing—cont'd.	
Procter & Gamble Co.	$1,299
Radio Corp. of Amer.	1,176
Republic Steel Corp.	918
R. J. Reynolds Tob. Co.	1,147
Shell Oil Co.	1,674
Sinclair Oil Corp.	1,202
Socony Mobil Oil Co.	2,983
Sperry Rand Corp.	995
Stand. Oil Co. of Calif.	1,689
Standard Oil Co. (Ind.)	1,882
Standard Oil Co. (N.J.)	7,712
Sun Oil Co.	724
Swift & Co.	2,648
Texaco Inc.	2,476
Tidewater Oil Co.	553
Union Carbide Corp.	1,316
United Aircraft Corp.	1,204
U. S. Rubber Co.	871
U. S. Steel Corp.	3,472
Western Electric Co.	2,188
Westinghouse Elec. Cp.	1,913
Wilson & Co.	685
Trade	
Allied Stores Corp.	645
American Stores Co.	875
Anderson, Clayton & Co.	797
Federated Dept. Stores	653
First National Stores	532
Food Fair Stores	736
Great A. & P. Tea Co.	5,096
Kroger Company	1,776
McKesson & Robbins	615
May Dept. Stores Co.	543
Montgomery Ward & Co.	1,092
National Tea Co.	794
J. C. Penney Co. (13 mos.)	1,411
Safeway Stores	2,226
Sears, Roebuck & Co.	3,743
Winn-Dixie Stores	598
F. W. Woolworth Co.	879
Transportation	
Atchison, Topeka & S. F.	609
New York Central RR	772
Pennsylvania Railroad	905
Southern Pacific Co.	678
Union Pacific RR	545
Public Utility	
Amer. Tel. & Tel. Co.	6,917
Cons. Edison Co. of N.Y.	577
General Tel. & Elec. Cp.	552
Pacific Gas & Elec. Co.	536

$21,000 Investment per Employe

To develop $142 billion of sales, the 100 largest nonfinancial companies used men, machines, and money on a big scale. They employed some 6.5 million workers and used total assets of $136 billion. Net property account covering land, buildings, and equipment was carried at $77 billion (after deducting depreciation and depletion of $51 billion) while the remainder consisted mostly of current assets — receivables, inventories, cash, and marketable securities.

These assets made a capital investment of approximately $21,000 per employe as an over-all average, but the industry figures vary widely. For manufacturing companies the average was $20,000, but ranged from as low as $7,000 for aircraft up to $60,000 for petroleum. For the largest trade companies the investment averaged $8,000, for the telephone systems $32,000, for railroads $38,000, and for electric and gas utilities $98,000.

Such heavy capital investment can be supplied only by pooling of resources by large numbers of investors, individual and institutional. The 100 largest companies report 10.2 million

registered shareholders. There were more than 50,000 shareholders each reported by 57 companies, with the Bell Telephone System alone having 1,625,000. Crowded annual meetings attest the widening distribution of corporate ownership, as well as more active interest being shown by investors. More shareholders than employes are reported by 62 of these big companies; many of the employes are shareholders also.

These figures on registered shareholders for the group include duplication to the extent that the same person often holds stock in more than one company in the list. At the same time, however, many names are nominees or trustees acting for large numbers of individuals and for banks and brokers. A vast number of people have a beneficial interest in the stock of these enterprises through mutual fund investments and insurance and pension reserves.

These companies had 2.2 billion shares of common stock outstanding at the year end, while the book net assets or shareholders' equity, including preferred stock, aggregated $87 billion. Long-term debt amounted to $25 billion, while current liabilities stood at $23 billion.

Spending the Sales Dollar

While the sales departments of the 100 largest companies last year were chalking up $142 billion of sales, other departments in the same companies were busy disposing of the receipts.

Disposition of Receipts by the 100 Largest U.S. Nonfinancial Corporations in the Year 1958

	Total (Millions)	% of Receipts
Total receipts from sales, revenues, etc.	$141,610	100.0
Costs:		
Costs of goods and services purchased from others, etc.	77,009	54.4
Wages, salaries, and labor benefits*	37,682	26.6
Provision for depreciation and depletion	6,550	4.6
Interest paid	1,001	.7
Income taxes	5,942	4.2
Other federal, state, local & foreign taxes†	5,494	3.9
Total costs of operations	133,678	94.4
Net income	7,932	5.6
Preferred and common dividends paid	5,130	3.6
Retained in the business	2,802	2.0

*Partly estimated, on basis of payrolls reported by companies representing 82 per cent of the total employment of the group.

†Tax figures charged as costs are exclusive of various sales and excise taxes collected from customers, such as gasoline and oil $3,527 million, automobiles $1,202 million, tires $220 million, and telephone messages $581 million.

Costs of goods and services purchased from others, the largest category of expense, amounted to $77 billion or 54 cents of the sales dollar.

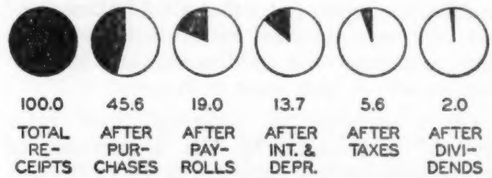
Wages, salaries and other employe benefits came to $38 billion. This was 27 cents of the sales dollar, and represented an average of $5,800 per employe.

Provision for depreciation and depletion of properties came to 4.6 cents per dollar of receipts, while interest on borrowed money took seven-tenths of 1 cent.

Federal and other income taxes totaled $5.9 billion, while other federal, state, local, and foreign taxes came to $5.5 billion. Total direct taxes of $11.4 billion took, on the average, 8 cents out of every sales dollar. This illustrates what a major item taxes have become in the cost of doing business and therefore in everyone's cost of living.

In addition to tax figures charged as costs, there were, as indicated in the footnote to the table, various sales and excise taxes collected from customers amounting to over $5 billion.

Total expenses and taxes paid or accrued absorbed 94.4 cents of the sales dollar, leaving net profit of 5.6 cents.



Percentages of Total Receipts of 100 Largest Nonfinancial Corporations in 1958 Remaining After Deductions of Major Expenses and Dividends

Dividend payments to preferred and common shareholders amounted to 3.6 cents of the sales dollar.

This left a balance retained in the business for financing growth of only $2.8 billion or 2.0 cents per sales dollar. This was far short of covering the requirements of new capital absorbed by these companies last year. Outlays for new or expanded plant and equipment came to $10.7 billion, against which depreciation and depletion charges were $6.6 billion, making an increase in net property account of $4.1 billion. Other assets absorbed $2.6 billion, net.

To meet these capital demands required not only retained earnings and sale of some additional stock, but also increases in long-term debt to the tune of $1.9 billion.

Food Price "Spreads"

From time to time public attention is directed to the fact that although prices of farm-produced foods have come down, little or none of this decline has filtered through to the consumer. A common complaint takes the form of a question: "Why can't the housewife benefit from the farmer's increased productivity and efficiency?" There is often the implication that somebody — usually the much-maligned "middleman" — is making too much money.

The old subject of "food price spreads" — the difference between what the farmer gets for his

raw product and what the consumer pays at the grocery store — was revived early in June following release of a House Agriculture Committee report entitled *Food Cost Trends.*

This report points out that retail food prices advanced 20 per cent between 1947-49 and 1958 while farm prices declined 8 per cent. It goes on to note that consumers purchased about 20 per cent more farm-produced foods at retail last year than they did in 1947-49. But farmers received only 15 per cent more income from the larger volume. During this same period, the amount consumers paid for food middlemen's marketing and processing charges rose 44 per cent.

Citing the $15.9 billion increase in the retail store cost of farm produced food from 1947-49 to 1958, the report states that $13.5 billion, or 84 per cent, was absorbed by marketing agencies and processors — the middlemen. Only $2.4 billion, or 16 per cent, went to farmers.

Other evidence of widening "food price spreads" is provided by U.S. Department of Agriculture monthly estimates of the farm value and retail cost of a typical "market basket" of farm-food products purchased by an urban clerical worker's family.

In 1958 this family paid $1,065 for the same kinds and quantities of food purchased in the 1947-49 period for $940 — an increase of 13 per cent. Meanwhile, the farmer last year received only $427 of these expenditures, an 8 per cent drop from the $466 received in the 1947-49 period.

In other words, the farmer's share of the consumer's food dollar fell from 50 per cent in 1947-49 to 40 per cent last year. So far this year his share has declined a bit more — to 39 per cent.

Convenience Foods

Before analyzing what's behind widening food spreads, it is important to note that "spread" performs useful marketing and service functions. As the Grocery Manufacturers of America, Inc. puts it: "Without spread, our steak would be standing in an Iowa feed lot, our cranberry sauce would be in a bog on Cape Cod, and our citrus juice would be on trees in Florida or California."

Today's consumer insists on a variety of fresh fruits and vegetables all year around. For example, if a Boston housewife wants to pay the price, she can get air-freighted fresh strawberries for her shortcake in December. In addition, there is the growing demand for groceries with "built-in maid service." It is estimated that today's modern supermarket offers some 7,000 items — 85 per cent of which are processed and prepackaged.

The housewife wants her spinach chopped and frozen, her chicken cut up and ready to fry, her beefsteaks cubed, her sausage precooked, her potatoes sliced into french fries, her hams cooked and boneless, her rolls ready to pop into the oven. She demands a variety of prepared mixes which will produce everything from cakes and cookies to puddings and pie crusts just by adding water.

What makes these convenience foods so popular, of course, is that they transfer much of the time and work involved in meal preparation from the kitchen to the manufacturer's plant. It is estimated that a few years back it took 5½ hours a day to prepare meals for a family of four. Today, using convenience foods, the job can be done in only 1½ hours.

Some observers, including farm leaders, food industry people, and government officials, have attributed widening price spreads, in large measure, to the increasing use of convenience foods. For instance, a 1953 study by the Agriculture Department showed that one day's fully home-prepared meals for a family of four cost $4.90 while the same meals from fully prepared, ready-to-serve foods cost $6.70 — 37 per cent more.

In July 1958, however, an Agriculture Department survey showed that food servicing conveniences increase the consumer's food bill by only a little over one half of one per cent. Specifically, for each $100 spent for groceries, the consumer paid only 61 cents for built-in maid service.

Surveying 52 unserviced foods and the equivalent quantity of serviced foods in Washington, D. C., the Department's researchers found that 28 of the highly processed foods cost more than the unprocessed items. For six items the cost was the same. For 18 foods, the highly processed forms — *e.g.*, shelled and frozen shrimp, chopped and frozen spinach, instant tea — the cost was less than for the unprocessed ones.

Processing in some cases gives foods longer life, shrinks their bulk, prevents waste, and cuts costs of shipping, handling, and storage. An outstanding example is concentrated orange juice which the Department analysts found priced at a little over half as much as the equivalent of orange juice in whole oranges. Moreover, servicing increases demand for some foods and the greater volume permits lower prices.

Thus, the Agriculture Department concludes in its recent survey, ". . . the growth of the processed and prepared foods industry does not

appear to have been the major factor in the increase in the marketing bill."

Profits to Blame?

If the Agriculture Department's contention that convenience items generally add little to grocery bills is accepted, why have food prices risen so sharply during the past decade in the face of falling prices for farm products?

"Middlemen's profiteering" often gets the blame. If this were the case, however, the "big" profits would show up in earnings reports.

The table below, based on public reports, shows the net profit margins in cents per sales dollar of leading food corporations for the past decade. Except for meat packing, which is unchanged, every category showed a smaller profit margin in 1958 than in 1949. Among food producers and processors, sugar shows the highest average for the decade – 4.1 per cent profit on sales. Retail grocery chains' profit amounted to 1.3 per cent. These compare with the 10-year average for all reporting manufacturing corporations of 6.1 per cent.

Net Profit Margins* as Percentage of Sales of Leading Food Corporations

	Food Producing or Processing						Retail
Year	Baking	Dairy Prod.	Meat Pack.	Sugar	Other Food	Total	Grocery Chains
1949	5.2	3.2	0.5	4.4	4.8	2.5	1.6
1950	5.0	3.0	0.8	5.5	5.1	2.8	1.7
1951	3.5	2.2	0.6	6.2	3.6	2.1	1.1
1952	3.6	2.1	0.4	4.4	3.1	1.9	1.0
1953	3.5	2.2	0.7	2.3	3.3	2.0	1.1
1954	3.3	2.5	0.4	2.9	3.7	2.2	1.2
1955	3.4	2.5	0.8	3.2	4.0	2.5	1.2
1956	3.3	2.6	0.9	3.7	4.2	2.7	1.4
1957	3.4	2.5	0.5	4.9	3.9	2.6	1.4
1958	3.2	2.6	0.5	3.5	4.2	2.6	1.4
Average 1949-58	3.7	2.5	0.6	4.1	4.0	2.4	1.3

* Net profit margins after taxes include income from investments and other sources as well as from sales.

In view of the middlemen's profit record, it is necessary to look elsewhere for the causes of rising food prices. Most important is the steady increase in costs of moving crops from the farm to the dinner table. Labor, transportation, supplies, equipment, fuel and power, taxes, advertising and the like have all gone up.

The following table shows how the major costs making up the farm-retail spread in the Agriculture Department's "market basket" have increased:

Breakdown of Farm Food Market Basket

Item	1947-49	1958	Change
Retail value	$940	$1065	+$125
Farm value	466	427	− 39
Farm-retail spread	474	688	+ 164
Components of spread:			
Labor cost	211	295	+ 84
Rail & truck transportation	53	80	+ 27
Other business expenses	179	223	+ 44
Federal corporate income taxes	12	20	+ 8
After-tax profits of processors & distributors	19	20	+ 1

Source: Calculated from U.S. Department of Agriculture Reports

In any consideration of food prices one final point remains to be noted: the cost of federal farm programs. For these, the citizen pays in two ways. He pays in higher prices for food. He pays again in federal taxes. These are a real part of the grocery bill even though they don't show up on the tape at the supermarket.

Depreciating Money

Continuing our practice of recent years, we present below a table showing the depreciation of money in 35 countries over the period 1948-58.* The decline in buying power is measured in each case by the rise in the official cost of living or consumer price index.

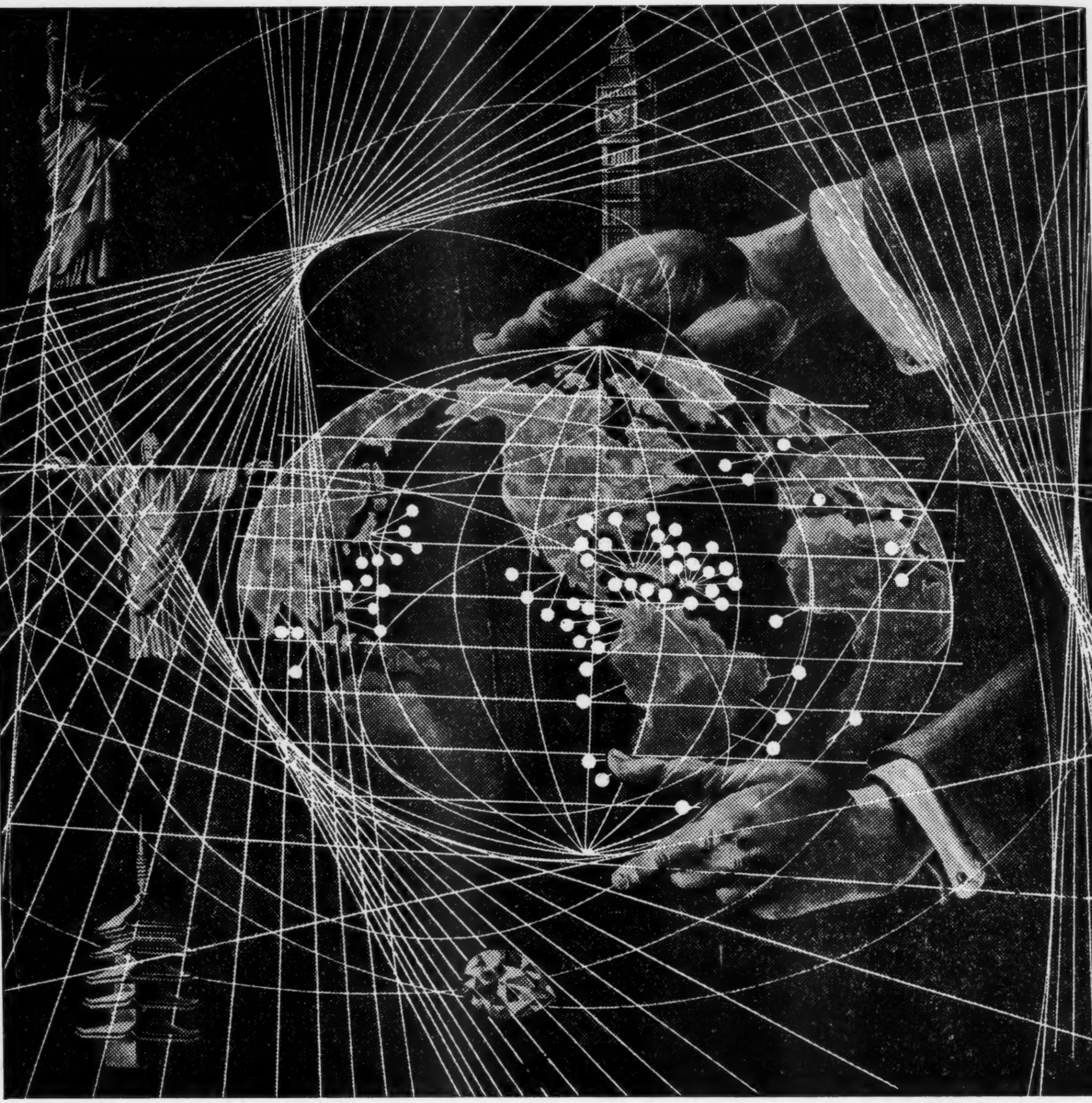
This year, for the first time, the ten-year span is subdivided into five-year periods. It is interesting to note that two out of three countries experienced a slower rate of depreciation during 1953-58 than in the earlier five-year period. This reflects more "normal" conditions (the earlier years included the Korean War); a growing awareness of the dangers of accepting inflation as a way of life; and the increasing effectiveness of restrictive monetary and fiscal policies in preventing inflationary excesses.

Depreciation of Money

	Indexes of Value of Money†			Annual Rate of Depreciation (Compounded)		
	1948	1953	1958	'48-'53	'53-'58	'48-'58
Portugal	100	99	94	0.2%	1.0%	0.6%
Switzerland	100	96	90	0.8	1.3	1.1
Belgium	100	94	87	1.2	1.5	1.3
Ecuador	100	89	86	2.2	0.8	1.5
Germany	100	93	84	1.5	1.9	1.7
India	100	92	84	1.7	1.7	1.7
United States	100	90	83	2.1	1.5	1.8
Venezuela	100	85	83	3.1	0.6	1.8
Pakistan	100	89	81	2.2	1.9	2.1
Canada	100	84	78	3.4	1.5	2.5
Italy	100	85	76	3.1	2.4	2.8
Denmark	100	81	69	4.1	3.1	3.6
South Africa	100	77	67	5.1	2.6	3.9
The Netherlands	100	78	66	5.0	3.1	4.0
Sweden	100	77	65	5.1	3.4	4.3
United Kingdom	100	77	65	5.1	3.4	4.3
Norway	100	74	63	5.8	3.1	4.5
New Zealand	100	75	63	5.7	3.4	4.6
Japan	100	63	57	9.0	1.7	5.4
Spain	100	79	56	4.7	6.5	5.6
Turkey	100	88	51	2.4	10.3	6.4
Finland	100	64	50	8.6	4.7	6.7
France	100	60	49	9.7	3.8	6.8
Australia	100	56	49	10.8	2.8	6.9
Greece	100	63	48	8.9	5.3	7.1
Mexico	100	71	47	6.6	7.8	7.2
Colombia	100	68	45	7.4	7.9	7.7
Peru	100	60	44	9.7	5.8	7.8
Austria	100	49	43	13.2	2.6	8.1
Uruguay	100	71	41	6.6	10.6	8.6
Brazil	100	62	26	9.2	15.9	12.6
Argentina	100	31	14	20.9	14.4	17.7
Chile	100	39	5	17.1	33.2	25.6
Paraguay	100	8	4	39.0	14.7	27.9
Bolivia	100	23	1	25.6	47.5	37.6

Note: Depreciation computed from unrounded data. † Measured by rise in official cost of living or consumer price index.

*See page 143 of the December 1956 issue of this *Letter* for the 1946-56 record and page 71 of the June 1958 issue for the 1947-57 experience.



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